

**STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT
OF**

**TOTAL DENTAL ADMINISTRATORS OF UTAH
OF**

SALT LAKE CITY, UTAH

AS OF

SEPTEMBER 30, 2003



TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	1
Period Covered by Examination	1
Examination Procedure Employed	1
Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination	2
HISTORY.....	2
General	2
Capital Stock.....	2
Dividends to Stockholders	3
Management.....	3
Conflict of Interest Procedure	4
Corporate Records.....	4
Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales through Reinsurance.....	4
Surplus Debentures	4
AFFILIATED COMPANIES	5
Cost-sharing agreements and significant regulatory information concerning parent, subsidiaries, and affiliates	5
FIDELITY BOND AND OTHER INSURANCE	6
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	6
STATUTORY DEPOSITS	6
INSURANCE PRODUCTS AND RELATED PRACTICES.....	7
Policy Forms and Underwriting	7
Territory and Plan of Operation.....	7
Advertising and Sales Material.....	7
Treatment of Policyholders	7
REINSURANCE.....	7
Ceded/Assumed	7
ACCOUNTS AND RECORDS.....	8
FINANCIAL STATEMENT.....	9
Balance Sheet.....	10
Statement of Revenue and Expenses	11
Capital and Surplus.....	12
COMMENTS ON FINANCIAL STATEMENT	13
CAPITAL AND SURPLUS.....	14
SUMMARY	15
CONCLUSION.....	16

March 9, 2004

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of September 30, 2003, of the financial condition and business affairs of

TOTAL DENTAL ADMINISTRATORS OF UTAH
of
Salt Lake City, Utah

a stock limited health plan, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 2000. The current examination covers the period from January 1, 2001, through September 30, 2003, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of September 30, 2003. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiner access to requested work papers prepared in connection with its audits. These work papers were utilized on a limited basis because they were dated for the prior year-end and were the basis for conclusions that were not timely as of September 30, 2003, the examination date.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination work papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company has addressed important points and recommendations noted in the prior examination report.

HISTORY

General

The Company was incorporated as Safeguard Health Plans, Inc. on June 17, 1986. It was granted a certificate of authority to transact business as a limited health plan and commenced writing dental insurance on March 20, 1987.

Total Dental Administrators, Inc. completed a stock purchase of Safeguard Health Plans, Inc. on August 30, 2002. The Company's Articles of Incorporation were amended on October 28, 2002, to reflect the present name of the Company, change the address of the Corporation's registered office and agent, and change the maximum number of directors from three to seven. The Company did not file these Amended Articles of Incorporation for Department approval until directed by the Department to file them pursuant to U.C.A. §31A-5-219(2). The Department approved these amendments on January 24, 2003.

The bylaws were amended during the period of this examination to change the Company's annual meeting to coincide with that of its parent company and to change the maximum number of directors from three to seven.

Capital Stock

The Company is authorized to issue 10,000 shares of common stock with a par value of \$1 per share. One thousand shares are issued and outstanding.

Total Dental Administrators, Inc., owns 100% of the issued and outstanding common stock of the Company. Jane Ann Morrison is the ultimate controlling person of Total Dental Administrators, Inc.

Dividends to Stockholders

During the period under examination the Board of Directors did not declare and the Company did not pay stockholder dividends.

Management

Management of the Company is vested in its board of directors. As of September 30, 2003, there were four directors. The directors as currently constituted are as follows:

<u>Name/Residence</u>	<u>Principal Occupation</u>
Jane Ann Morrison Salt Lake City, Utah	President Total Dental Administrators of Utah, Inc.
Orrin Tether Colby, Jr. Salt Lake City, Utah	Secretary Total Dental Administrators of Utah, Inc.
Christopher Allen Jehle Phoenix, Arizona	Vice President & Treasurer Total Dental Administrators of Utah, Inc.
Vernell Ruelisa Johnson Salt Lake City, Utah	Accounting Manager JC Penney

Senior Officers serving the Company as of September 30, 2003, were:

<u>Officer</u>	<u>Title</u>
Jane Ann Morrison	President
Christopher Allen Jehle	Vice President & Treasurer
Orrin Tether Colby, Jr.	Secretary

There were no Board committees as of September 30, 2003.

Conflict of Interest Procedure

No exceptions were noted in the review of conflict of interest statements completed by the directors and officers of the Company for the examination period under review.

Corporate Records

Corporate records generated for and during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors and of the sole shareholder. The minutes contain detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. The prior examination report, as of December 31, 2000, was distributed to the board of directors on July 2, 2001.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

Total Dental Administrators, Inc., a Utah corporation, completed purchase of the Company from Safeguard Health Enterprises, Inc., a Delaware corporation, on August 30, 2002. Total Dental Administrators, Inc. wholly owns the Company.

Surplus Debentures

During the period covered by the examination, the Company was not a party to any surplus debentures.

AFFILIATED COMPANIES

The Company is a member of the insurance holding company system indicated below as of September 30, 2003:

Total Dental Administrators, Inc. (A Utah Corporation Sole Shareholder)
Total Dental Administrators of Utah, Inc. (A Utah Corporation)
Total Dental Administrators Health Plan, Inc. (An Arizona Corporation)

The ownership of Total Dental Administrators, Inc., as of September 30, 2003, is indicated below:

Jane Ann Morrison (An Individual – 28.90% of Voting Shares)
Dr. Donald James Peterson (An Individual – 21.02% of Voting Shares)
Christopher A. Jehle (An Individual – 25.51% of Voting Shares)
Six Individual Shareholders (Owning a Combined 25.57% of Voting shares,
with none owning 10% or greater)

Insurance holding company registration statements as of December 31, 2002, were filed with the Department in 2003, pursuant to U.C.A. §31A-16-105.

Cost-sharing agreements and significant regulatory information concerning parent, subsidiaries, and affiliates

In January 2003, the Company executed an administrative agreement with its parent company, Total Dental Administrators, Inc. The agreement states that the Company will reimburse the parent for such operating expenses as postage, printing, supplies, employee benefits, salaries, and payroll taxes. The Company will also pay the parent \$2,000 a month for underwriting fees and services. Pursuant to U.C.A. §31A-16-106 the agreement was filed with the Department.

The Company used a method for determining reimbursement of salary expenses to Total Dental Administrators Inc. for services provided, that did not include logs, time sheets, or other documentation as specified in the administrative agreement.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an entity of the Company's size and premium volume is not less than \$50,000. As of December 31, 2002, the Company had fidelity coverage of \$50,000.

The Company also had additional insurance protection against loss from property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provides its employees with health insurance benefits. Through the parent company, Total Dental Administrators, Inc., employees are provided dental and life insurance benefits. The Company did not provide pension and stock ownership benefits to its employees.

No provision for any of these plans was necessary in the financial statement of the Company.

STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-8-211(3)(a), the Company was required, as of September 30, 2003, to maintain a deposit in the amount of \$25,000.

A Statutory deposit held through the Department for the primary benefit of all policyholders as of September 30, 2003, was as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	US Treasury Note 4.25%	\$ 60,150	\$ 61,556

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company's principal line of business is prepaid dental insurance. Dental plan providers are compensated for dental services with capitation payments. The capitation payment amount to a plan provider is based upon the number of subscribers selecting that provider for dental services. As of September 30, 2003, twenty percent of subscribers did not have a provider selected, and therefore no capitation payments were made. At the current membership level, full utilization of the provider network by subscribers would increase capitation expense by approximately \$50,000 per year.

Providers are paid additional supplemental payments from a capitated funded pool for services such as oral exams, cleanings, and x-rays. The Company does not retain any additional risk for the capitated funded pool beyond the accrued liability reported.

Territory and Plan of Operation

The Company is authorized to transact dental insurance as a limited health plan only in the state of Utah as of September 30, 2003.

Advertising and Sales Material

The Company did not utilize any form of commercial advertising during the examination period.

Treatment of Policyholders

The Company had a written grievance procedure and maintained a complaint log to monitor complaints. As of September 30, 2003, and during the examination, neither the Company nor the Department had received any written complaints.

REINSURANCE

Ceded/Assumed

During the period covered by the examination, the Company neither ceded nor assumed reinsurance. The risks undertaken by the Company were minimal.

ACCOUNTS AND RECORDS

The Accounts and Records of the Company are maintained on computer systems owned and operated by its parent Total Dental Administrators, Inc. The general ledger and investment information are also currently maintained on computers.

A review was made of the audited reports and management letters prepared by the auditing firm for the years covered by this examination. They did not disclose any material findings.

The Company made available paper and electronic documentation of its general ledger. The adjusted general ledger trial balance for the period ending was tied to and agreed to various parts of the Annual Statement.

The following record keeping deficiency was noted by the examination:

- The Company held a single U.S. Treasury Note as of September 30, 2003. The bond was not reported at amortized cost as required by the NAIC Practices and Procedure Manual (SSAP 26), but was reported at cost. No adjustment was made because the difference between the amount reported and determined for examination purposes was immaterial.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of September 30, 2003

Statement of Revenue and Expenses as of September 30, 2003

Capital and Surplus for the Period 2000 through September 30, 2003

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

TOTAL DENTAL ADMINISTRATORS OF UTAH
Balance Sheet as of
September 30, 2003

ASSETS

	<u>Amount</u>	
Bonds	\$ 61,374	
Cash and short-term investments	281,511	
Investment income due and accrued	756	
Uncollected premiums and agents' balances in the course of collection	63,269	(1)
Electronic data processing equipment and software	833	
	<hr/>	
Total assets	407,743	
	<hr/>	

LIABILITIES, CAPITAL AND SURPLUS

Premiums received in advance	40,040	(2)
General expenses due or accrued	17,685	
Aggregate write-ins for other liabilities: Reserves for capitation payments	85,722	(3)
	<hr/>	
Total liabilities	143,447	
	<hr/>	
Common capital stock	1,000	
Gross paid in and contributed surplus	89,491	
Unassigned funds (surplus)	193,805	
	<hr/>	
Total capital and surplus	284,296	
	<hr/>	
Total liabilities, capital and surplus	\$ 407,743	
	<hr/>	

TOTAL DENTAL ADMINISTRATORS OF UTAH
Statement of Revenue and Expenses
as of September 30, 2003

Net premium income	\$ 1,237,015
Total revenues	<u>1,237,015</u>
Other professional services: Compensation to non-physician providers	778,402
Emergency room and out of area	<u>90</u>
Total hospital and medical	<u>778,492</u>
General administrative expenses	<u>389,921</u>
Total underwriting deductions	<u>1,168,413</u>
Net underwriting gain or (loss)	<u>68,602</u>
Net investment income earned	1,501
Net realized capital gains or (losses)	<u>0</u>
Net income or (loss) before federal income taxes	<u>70,103</u>
Federal and foreign income taxes incurred	<u>0</u>
Net income (loss)	<u><u>\$ 70,103</u></u>

TOTAL DENTAL ADMINISTRATORS OF UTAH
Capital and Surplus
for the Period 2000 through September 30, 2003

	2000	2001	2002	September 30, 2003
Capital and surplus, December 31, previous year	\$ 59,695	\$ 60,635	\$ 60,260	\$ 144,506
Net Income or (loss)	(398)	(13,592)	158,176	70,103
Net unrealized capital gains and losses				
Change in nonadmitted assets	3,520	12,290	(74,986)	49,251
Capital Changes: Paid In			(79,509)	
Aggregate write-ins for gains or (Losses) in surplus:				
Adjustment for prior periods'				
income tax effect not booked	(2,182)	927		
Net assets not acquired in license acquisition			80,565	
Prior year interest not accrued on annual statement				436
Net change in capital and surplus for the year	940	(375)	84,246	119,790
Capital and surplus, December 31, current year	<u>\$ 60,635</u>	<u>\$ 60,260</u>	<u>\$ 144,506</u>	<u>\$ 264,296</u>

COMMENTS ON FINANCIAL STATEMENT

(1) Uncollected premiums

\$63,269

The Company reported an asset for uncollected premiums and agents' balances in the course of collection of \$72,608. The asset disclosed on the Balance Sheet contained in this examination report was \$63,269. The asset was decreased to reflect receivables reported that were greater than 90 days overdue and additional amounts that were determined to be uncollectible.

(2) Premiums received in advance

\$40,040

The Company reported a liability for premiums received in advance of \$49,039. The liability disclosed on the Balance Sheet contained in this examination report was \$40,040. The liability was decreased to reflect the examination's recalculation of the liability based on subsequent adjustments for terminated accounts.

(3) Aggregate write-ins for other liabilities - Reserves for
capitation payments

\$85,722

The Company reported a liability for Aggregate write-ins for other liabilities-Reserves for capitation payments of \$76,498. The liability disclosed on the Balance Sheet contained in this examination report was \$85,722. The liability was increased because a subsequent guaranteed payment to a provider was \$9,224 greater than the liability reported.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$9,564 less than reported in the Company's quarterly statement as of September 30, 2003. The following schedule identifies the examination changes:

<u>Description</u>	<u>Quarterly Statement</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
Uncollected premiums	\$ 72,608	\$ 63,269	\$ (9,339)	(1)
Premiums received in advance	(49,039)	(40,040)	8,999	(2)
Reserves for capitation payments	(76,498)	(85,722)	(9,224)	(3)
Total changes			(9,564)	
Capital and surplus per Organization			<u>273,860</u>	
Capital and surplus per Examination			\$ <u>264,296</u>	

Pursuant to U.C.A. §31A-8-209(2)(a) the Company is required to maintain minimum capital in the amount of \$20,000. The Company reported total adjusted capital of \$144,506 and an authorized control level risk-based capital (RBC) requirement of \$41,720 as of December 31, 2002.

The examination determined total adjusted capital to be \$264,296 as of September 30, 2003. The examination accepted the Company's authorized control level RBC of \$41,720 because adjustments made for examination purposes would not have a significant effect on the RBC requirement.

Based upon the material change in the scope of the Company's operations since the last examination, the examiner recommends, pursuant to U.C.A. §31A-8-209(2)(c), that the Department review the adequacy of the current minimum required capital.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

Pursuant to U.C.A. §31A-8-209(2)(a) the Company is required to maintain minimum capital in the amount of \$20,000. The Company reported total adjusted capital of \$144,506 and an authorized control level risk-based capital (RBC) requirement of \$41,720 as of December 31, 2002. The examination determined total adjusted capital to be \$264,296 as of September 30, 2003. (CAPITAL AND SURPLUS)

Based upon the material change in the scope of the Company's operations since the last examination, the examiner recommends, pursuant to U.C.A. §31A-8-209(2)(c), that the Department review the adequacy of the current minimum required capital. (CAPITAL AND SURPLUS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Donald R. Catmull". The signature is fluid and cursive, with the first name "Donald" and last name "Catmull" being clearly legible despite the stylized script.

Donald R. Catmull, AFE
Examiner in Charge, representing the
Utah Insurance Department